

No. 8/26/DPbS

Jakarta, November 14, 2006

CIRCULAR LETTER

To

ALL SHARIA RURAL BANKS
IN INDONESIA

Subject : Minimum Capital Adequacy Requirement for Sharia Rural
Banks

Following the enactment of Bank Indonesia Regulation Number 8/22/PBI/2006 dated October 5, 2006 concerning Minimum Capital Adequacy Ratio for Sharia Rural Banks (State Gazette of the Republic of Indonesia Number 79 of 2006, Supplement to the State Gazette of the Republic of Indonesia Number 4648), it is necessary to enact implementation provisions concerning the calculation of minimum capital adequacy requirement for Sharia Rural Banks (SRBs) in a Bank Indonesia Circular Letter as follows.

I. GENERAL PROVISIONS

1. Capital represents one of essential factors for SRBs in the development of business and anticipation of potential risks.
2. Minimum capital adequacy requirement for SRBs is based on risk of assets in the broad sense, either assets included in the balance sheet or administrative assets as reflected on liabilities which are yet in contingency and/or commitment provided by SRBs for third parties. Technically, minimum capital adequacy requirement shall be measured by a certain percentage to Risk Weighted Assets (ATMR).

3. Any SRB shall be required to set aside a minimum capital at 8% (eight percent) of ATMR.

II. CAPITAL ASPECT

Referring to Article 3 paragraph (1) Bank Indonesia Regulation Number 8/22/PBI/2006, SRBs' capital comprises tier 1 capital and tier 2 capital, with respective components as follows.

1. Tier 1 Capital

Tier 1 Capital comprises :

- a. Paid up Capital, namely a capital really and effectively paid up by its owner amounting to the nominal of shares and has been approved by Bank Indonesia. For an SRB legally incorporated as a Limited Liability Company, paid up capital comprises principal savings, mandatory savings, and endowments as referred to in Act Number 25 of 1992 concerning Cooperatives.
Paid up capital shall not include subscribed capital stock originating from shareholder receivables as referred to in applicable Statement of Financial Accounting Standard concerning Equity.
- b. Share Agio, namely an addition to capital received by an SRB emerging from a higher price of shares than its nominal value. If the SRB holds a share disagio, a decrease in the value of capital deposits from the nominal value of shares issued shall become a subtracting factor of tier 1 capital.
- c. Capital Deposit Fund, namely a fund which has effectively been paid up in full by a shareholder or prospective shareholder to add the capital in order to be classified as a paid up capital but has not been fully supported with prerequisites fulfilling requirements for a paid up capital, such as approval by

shareholder ...

shareholder general meeting or legalization of statutes by the authorized institution. Capital Deposit Funds must be placed in an escrow account and may not be withdrawn by any shareholder or prospective shareholder and the usage shall be under Bank Indonesia approval.

- d. Donated Capital, namely a capital obtained by an SRB from donation. Any capital originating from a donation from outside party obtained by an SRB legally incorporated as a cooperative shall also be included into donated capital.
- e. General Reserves, namely reserves derived from set aside retained profits or from profits after tax and approved by shareholder general meeting or member meeting in compliance with applicable laws and regulations.
- f. Designated Reserves, namely reserves derived from a portion of profits after deducted by tax set aside for a certain purpose and has been approved by shareholder general meeting or member meeting in compliance with applicable laws and regulations.
- g. Retained Profits After Tax, namely net profit balance after deducted by tax which has been decided by shareholder general meeting or member meeting not to be divided.
- h. Previous Year's Profits After Tax, namely total net profits obtained in the previous year after deducted by tax and the usage of which has not been decided by shareholder general meeting or member meeting.

In the event of any loss in previous year's balance of an SRB, the whole loss shall become a subtracting factor of tier 1 capital.

- i. Current Year's Profits, namely profits obtained in the current year after deducted by an estimated tax (tax calculation) and a deficit in PPAP from the amount to be derived in compliance with Bank

Indonesia regulatory provisions representing a component of costs borne by profits of the current year. Only 50% (fifty percent) of the total profits of the current year may be included as tier 1 capital. In the event of any loss in current year's balance of an SRB, the whole loss shall become a subtracting factor of tier 1 capital.

The tier 1 capital as referred to in the aforementioned letter a up to letter i shall be deducted by goodwill, if available in the SRB bookkeeping.

2. Tier 2 Capital

Tier 2 capital may be specified in the forms of :

- a. Increment from Revaluation of Fixed Assets, namely reserves derived from a difference of revaluation on fixed assets owned by an SRB which have been approved by the Directorate General of Taxes, Ministry of Finance. The difference of revaluation on fixed assets may not be capitalized into paid up capital and/or divided as bonus share and/or dividend.
- b. General Reserves from PPAP, namely general reserves borne by current year's profits, intended to accommodate potential losses emerging from failure in regain portion of or the whole earning assets. PPAP in the form of general reserves shall be accounted a component of the tier 2 capital no more than 1.25% of total ATMR.

Special reserves of PPAP shall be excluded from components of tier 2 capital because they will be accounted a subtracting factor of the value of earning assets concerned in ATMR calculation.

- c. Loan Capital (quasi capital), namely a loan supported by instruments or certificates meeting requirements as follows.
 1. based on *Qardh* principles;

2. not assured by issuing SRB, treated the same as a capital and has been paid up in full;
3. may not be repaid or withdrawn at the initiative of the holder without approval of Bank Indonesia; and
4. has the same standing as a capital if SRB's losses exceed the balance of profits and reserves including tier 1 capital notwithstanding the bank has not been liquidated.

In this regard, for an SRB legally incorporated as a cooperative, the meaning of loan capital shall refer to provisions in Act Number 25 of 1992 concerning Cooperatives.

- d. Subordinated Investment, namely a loan meeting requirements as follows.
 1. based on *Mudharabah* or *Musyarakah* principles;
 2. existence of a written agreement between SRB and investor;
 3. has prior approval of Bank Indonesia. In this case, upon submission of the approval, any SRB shall be required to submit its subordinated loan/investment repayment program;
 4. not assured by the SRB concerned and has been paid up in full;
 5. a minimum tenor of 5 (five) years;
 6. repayment prior to maturity shall have a prior approval of Bank Indonesia and after this repayment SRB capital shall remain sound; and
 7. in the event of a liquidation, its right of claim shall be the last priority after all existing borrowings (same status as a capital).

Subordinated investment amount which may be accounted capital for the rest of the last 5 (five) year period is the amount of

subordinated ...

subordinated investment deducted by amortization which is calculated by straight line method or prorate.

Subordinated investment which may be accounted a component of tier 2 capital shall amount to a maximum of 50% (fifty percent) of tier 1 capital.

III. CALCULATION OF MINIMUM CAPITAL REQUIREMENT

1. The Basis of Calculation of Minimum Capital Requirement

- a. Calculation of minimum capital requirement is based on the ATMR taking into account credit risks. The meaning of assets in this calculation includes either assets included in the balance sheet or certain items in administrative assets which are yet in contingency and/or commitment provided by an SRB for third parties.
- b. In the calculation of ATMR taking into account credit risk, each item in balance sheet assets is weighted on the basis of respective risk content included in the assets or risk weight on the basis of the category of customer, guarantor, and the nature of collateral.
- c. Calculation of ATMR for earning assets shall be specified as follows.
 - 1) Provision of funds and/or claims in various forms of earning assets with funds originating from own capital or third party capital in the form of *Wadiah*, *Qardh*, and *Mudharabah Mutlaqah* under a net revenue sharing system which are specified as follows.
 - a) Extended to or assured by the Government or the Central Bank shall be weighted at 0% (zero percent);
 - b) Extended to or assured by other bank shall be weighted at 20% (twenty percent);

c) Extended ...

- c) Extended to or assured by state/regional government owned enterprise (BUMN/BUMD) shall be weighted at 50% (fifty percent).

If assured by a BUMD, the risk weight may only be admitted to 50% (fifty percent) provided that the enterprise concerned has conducted a cooperation in financing assurance with a BUMN.

- 2) Provision of funds and/or claims in various forms of earning assets with funds originating from third party funds based on *Mudharabah Mutlaqah* principles under a net revenue sharing system shall be weighted at 1% (one percent);
- 3) Provision of funds in the form of receivable for housing covered by a first priority insurance and intended to be occupied with funds originating from own capital and/or third party capital based on *Wadiah*, *Qardh*, and *Mudharabah Mutlaqah* principles under a net revenue sharing system shall be weighted at 35% (thirty five percent);
- 4) Provision of funds and/or claims in various forms of earning assets for employees/pensioners outside housing and micro- and small-scale business (UMK) with funds originating from own capital and/or third party capital based on *Wadiah*, *Qardh*, and *Mudharabah Muthlaqah* principles under a net revenue sharing system shall be weighted at 50% (fifty percent), by meeting the following requirements.
 - a) Total provision of funds shall be no more than Rp500,000,000.00 (five hundred million rupiah) per employee/pensioner;
 - b) 1. Any employee/pensioner shall be covered by a life insurance of a state owned insurance company with a

status of a BUMN or a private insurance company meeting requirement of soundness in its finance in compliance with applicable laws and regulations; or

2. Provision of funds for an employee/pensioner with funds covered by a financing assurance BUMN or by a financing assurance BUMD which has conducted a cooperation in financing assurance with a BUMN.
- c) Installment/settlement payments in the provision of funds with funds originating from salary/pension shall be based on a Power of Attorney to Deduct Salary/Pension held by the SRB providing funds. If the payments by salary/pension are conducted through another bank or BUMN, the SRB providing funds shall make an agreement with the other bank or BUMN concerned in deducting salary/pension for the payments of installments/settlement; and
- d) The SRB shall keep original letter of employment or letter of retirement or Pensioner Main Registration Card (KARIP) and debtor's life insurance coverage policy, or other documents of the kind for assurance by financing assurance BUMN/BUMD.

Employee includes government employees/civil servants (PNS), members of Indonesian armed forces/policemen, state institution employees, and BUMN/BUMD employees.

- 5) Provision of funds and/or claims on UMK with funds originating from own capital and/or third party capital based on *Wadiah*, *Qardh*, and *Mudharabah Muthlaqah* principles under a net revenue sharing system shall be weighted at 85% (eighty five percent).

Provision of funds and/or claims on micro-enterprise is a provision of funds and/or claims on a micro-enterprise with a maximum amount of up to Rp50,000,000.00 (fifty million rupiah).

Provision of funds and/or claims on small-scale enterprise is a provision of funds and/or claims on a small-scale enterprise with a maximum amount of more than Rp50,000,000.00 (fifty million rupiah) up to Rp500,000,000.00 (five hundred million rupiah).

- 6) Provision of funds and/or claims in various forms of earning assets with profit sharing method and funds originating from own capital, *Wadiah*, *Qardh*, and *Mudharabah Mutlaqah* under a net revenue sharing system shall be weighted at 150% (one hundred and fifty percent).

2. Referring to the principles as described in number 1, assets in the balance sheet shall be weighted as follows.

0% : 1. Cash in hand

2. Gold and gold coins

3. Commemorative coins

4. Placements at Bank Indonesia

4.1. *Wadiah* demand deposits at Bank Indonesia

4.2. Bank Indonesia *Wadiah* Certificates

4.3. Others

5. Provision of funds and/or claims in the forms of *Mudharabah* and *Musyarakah* financing, *Murabahah* receivables, *Salam* receivables, *Istishna'* receivables, and *Qardh*, *Ijarah* receivables to or assured by :

5.1. Central Bank;

5.2. Central Government

6. Provision ...

6. Provision of funds and/or claims in the forms of *Mudharabah* and *Musyarakah* financing, *Murabahah* receivables, *Salam* receivables, *Istishna'* receivables, *Qardh*, *Ijarah* receivables, and multi-service transaction receivables assured by cash in hand, foreign banknotes, gold, gold coins, time deposits, and savings deposits at SRB concerned at respective collateral value.
- 1 % : Provision of funds and/or claims in the forms of *Mudharabah* and *Musyarakah* financing, *Murabahah* receivables, *Salam* receivables, *Istishna'*, *Ijarah* receivables, and multi-service transaction receivables with funds originating from third party funds based on *Mudharabah Mutlaqah* principles under a profit sharing system.
- 20% : Provision of funds and/or claims in the forms of *Mudharabah* and *Musyarakah* financing, *Murabahah* receivables, *Salam* receivables, *Istishna'* receivables, and *Qardh*, *Ijarah* receivables to or assured by another sharia bank with funds originating from own capital and/or third party funds based on *Wadiah*, *Qardh*, and *Mudharabah Mutlaqah* principles under a net revenue sharing system;
- 35% : Provision of funds and/or claims in the form of receivable for housing covered by a first priority insurance and intended to be occupied with funds originating from own capital and/or third party fund based on *Wadiah*, *Qardh*, and *Mudharabah Mutlaqah* principles under a net revenue sharing system;
- 50% : Provision of funds and/or claims in the forms of *Mudharabah* *Musyarakah* financing, *Murabahah* receivables, *Salam* receivables, *Istishna'* receivables, and *Qardh*, *Ijarah* receivables to or assured by BUMN/BUMD with funds

originating ...

- originating from own capital and/or third party funds based on *Wadiah*, *Qardh*, and *Mudharabah Mutlaqah* principles under a net revenue sharing system;
- 50% : Provision of funds and/or claims in the forms of *Mudharabah* and *Musyarakah* financing, *Murabahah* receivables, *Salam* receivables, *Istishna'* receivables, and *Qardh*, *Ijarah* receivables to employees/pensioners other than for housing and UMK with funds originating from own capital and/or third party capital based on *Wadiah*, *Qardh*, and *Mudharabah Mutlaqah* principles under a net revenue sharing system;
- 85% : Provision of funds and/or claims in the forms of *Mudharabah* and *Musyarakah* financing, *Murabahah* receivables, *Salam* receivables, *Istishna'* receivables, and *Qardh*, *Ijarah* receivables extended to UMK with funds originating from own capital and/or third party funds based on *Wadiah*, *Qardh* and *Mudharabah Mutlaqah* principles under a net revenue sharing system;
- 100% : 1. Stock
2. Fixed assets and inventory
3. Miscellaneous assets
4. Others, including multi-service transaction receivables with funds originating from own capital and/or third party funds based on *Wadiah*, *Qardh*, and *Mudharabah Mutlaqah* principles under a net revenue sharing system;
- 150% : Provision of funds in various forms of earning assets under a profit sharing method with funds originating from *Wadiah*, own capital, *Qardh*, and *Mudharabah Mutlaqah* under a net revenue sharing system.

3. Risk Weight of Administrative Assets

Risk weight for administrative assets shall be calculated in 2 (two) stages.

3.1. First Stage

A conversion factor of administrative assets shall be firstly established, namely a specific factor used to convert the administrative assets into corresponding balance sheet assets. The magnitude of the conversion factor of the administrative assets is based on the degree of possibility to become effective balance sheet assets.

The conversion factor for administrative assets is :

50% : *Mudharabah* and *Musyarakah* financing facilities which have not been used, provided for customers up to the end of the current calendar year.

3.2. Second Stage

The administrative assets shall be converted into the corresponding balance sheet assets. Risk weight of the administrative assets shall further be calculated by multiplying the conversion factor by the risk weight of the corresponding balance sheet assets.

This calculation results a grouping of risk weight magnitude of respective administrative assets as follows.

0% : 1. *Mudharabah* and *Musyarakah* financing facilities which have not been used, provided for customers up to the end of the current calendar year, for or assured by the Central Government of the Republic of Indonesia and Bank Indonesia.

2. *Mudharabah* and *Musyarakah* financing facilities which have not been used, provided for customers assured by cash in hand, foreign banknotes, gold,

gold coins ...

gold coins, and demand deposits, time deposits, and savings deposits at the SRB concerned amounting to its collateral value.

- 10 % : *Mudharabah* and *Musyarakah* financing facilities which have not been used, provided for customers up to the end of the current calendar year, for or assured by other sharia bank.
- 25 % : *Mudharabah* and *Musyarakah* financing facilities which have not been used, provided for customers up to the end of the current calendar year, for or assured by a BUMN/BUMD.
- 25 % : *Mudharabah* and *Musyarakah* financing facilities which have not been used, provided for customers up to the end of the current calendar year, for employees/pensioners.
- 42,5% : *Mudharabah* and *Musyarakah* financing facilities which have not been used, provided for customers up to the end of the current calendar, for or assured by UMK.
- 50% : *Mudharabah* and *Musyarakah* financing facilities which have not been used, provided for customers up to the end of the current calendar year, for or assured by other parties.
- 75 % : *Mudharabah* and *Musyarakah* financing facilities which have not been used, provided for customers up to the end of the current calendar year, which is based on a profit loss sharing method with funds originating from own capital, *Wadiah*, *Qardh*, and *Mudharabah Mutlaqah* under a net revenue sharing system.

4. Method of Calculation of Minimum Capital Requirement

Minimum capital requirement of an SRB shall be calculated as follows.

4.1. By summation ...

- 4.1. By summation of ATMR, namely :
 - a. ATMR of balance sheet assets obtained by multiplication of assets nominal value concerned by risk weight as referred to in number III.2;
 - b. ATMR of administrative assets obtained by multiplication of administrative account nominal value concerned by risk weight as referred to in number III.3.3.2;
- 4.2. The minimum capital adequacy requirement for an SRB is stipulated at 8% (eight percent) of the ATMR in number 4.1.
- 4.3. By summation of tier 1 capital with tier 2 capital.
- 4.4. Difference between capital in number 4.3 and minimum capital adequacy requirement as referred to in number 4.2 shall be a surplus or a deficit in the capital of the SRB concerned.

Model of form for the calculation of SRB minimum capital adequacy requirement is attached as Appendix to this Bank Indonesia Circular Letter.

IV. REPORT SUBMISSION

1. Referring to Article 8 Bank Indonesia Regulation Number 8/22/PBI/2006, any SRB shall be required to report its calculation of minimum capital adequacy requirement using the format attached in Appendix I no later than the 21st day of the following month after the concerned reporting month.
2. The reporting as referred to in number 1 shall be in force for the data reporting period of January 2007 which shall be submitted in February 2007.
3. The report as referred to in number 1 shall be submitted in the forms of disk and computer processed outputs (hardcopy) to Bank Indonesia as follows.

a. For any ...

- a. For any SRB with head office located in the working area of Bank Indonesia Head Office, report shall be submitted to the Directorate of Sharia Banking, Jl. M.H. Thamrin No. 2, Jakarta 10350; or
- b. For any SRB with head office located outside the working area of Bank Indonesia Head Office, report shall be submitted to local Bank Indonesia Regional Office.

V. MISCELLANEOUS

1. Considering that capital is essential for any SRB in the development of a sound business and may accommodate potential losses, SRB owners and management are required to adjust their planned expansion in the limitation able to be accommodated by the capital of the SRB concerned.
2. Any SRB shall monitor its capital in compliance with the aforementioned provisions by calculating capital adequacy on its own at least on a monthly basis using data presented in monthly report submitted to Bank Indonesia.

VI. CONCLUDING PROVISIONS

1. With the enactment of this Circular Letter, Bank Indonesia Circular Letter No. 26/2/BPPP dated May 29, 1993 concerning Minimum Capital Adequacy Requirement for Rural Banks shall be declared no longer valid for Sharia Rural Banks.
2. This Bank Indonesia Circular Letter shall come into force since January 1, 2007.

For the ...

For the public to be informed, it is ordered that this Bank Indonesia Circular Letter be promulgated in the State Gazette of the Republic of Indonesia.

Kindly be informed accordingly.

BANK INDONESIA,

SITI CH. FADJRIJAH
Deputy Governor